

Reactions

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Acquisitive reinsurers are gambling

Reinsurers looking to acquire or merge with other businesses are not taking enough care over due diligence, according to David Siesko, founder of consulting firm Siesko Partners.

Siesko says that reinsurers are getting so carried away with target companies' strong balance sheets they are failing to properly check for possible legacy issues.

"CEOs are coming under so much pressure to grow, and the fact is that there are so many companies out there that the only way for them to grow is through acquisitions," he says. "But the downside of a poorly-executed acquisition could have long-term negative effects."

He adds: "It's interesting because reinsurers are not as keen on due diligence as you might think they should be."

The excitement that good results are creating means acquisitive reinsurers could be missing hidden liabilities, says Siesko. He mentions medical malpractice, pharmaceuticals and asbestos liabilities as risks that still have the potential to hurt reinsurance companies.

"Reinsurers should never assume that because a book has been in run-off for so long that all the skeletons are out of the closet," he says.

A thorough due diligence process takes time and is expensive, which would be why reinsurers are reluctant to invest in them.

"We are not even seeing people wanting to look at the first level of procedures and it's because balance sheets are so strong," says Siesko. "There is a lot of competition for acquisitions as well, so companies could be scared they are going to lose the deal if they spent too much time on due diligence. The key is to strike the right balance."